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FISCAL IMPACT STATEMENT

LS 6727

BILL NUMBER: HB 1216

NOTE PREPARED: Apr 22, 2003

BILL AMENDED:

SUBJECT: Continuation of Benefits During Receivership.

FIRST AUTHOR: Rep. Fry

FIRST SPONSOR: Sen. Paul

BILL STATUS: Enrolled

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill revises the terms for continuation of benefits for enrollees of a health maintenance organization (HMO) that is in receivership.

Effective Date: July 1, 2003.

Explanation of State Expenditures: This bill may result in reduced state expenditures for health insurance purchased from a health maintenance organization (HMO).

This bill requires that an HMO that enters receivership is to pay benefits to an individual for the entire period of hospitalization or the duration of the contract period for which premiums have been paid, whichever is longer. Under current regulations, an HMO is only required to continue benefits for the longer of the duration of the contract for which premiums have been paid (typically 30 days, state contract 14 days) or 60 days.

The Department of Insurance currently requires that HMOs maintain a reserve (receivership) fund equal to 60 days of benefits. The Department is working on regulations to change this requirement to a lower formula-based reserve.

One HMO provided information regarding the cost of the 60-day reserve requirement and the requirement proposed in this legislation. Under the 60-day reserve requirement, this insurer is required to maintain a reserve of approximately \$68 M. Under the provisions of this bill, the insurer would be required to maintain a reserve of approximately \$36.2 M. This decreased reserve requirement may result in reduced operating expenses and lower premiums. However, any reduction in premiums is subject to insurer administrative action.

Background: For the HMO that provided data, the average total premium per month is \$37.9 M. Of this, approximately 90% is paid for claims, resulting in \$34.1 M in claims per month. Assuming a 60-day reserve, this insurer must maintain \$68.1 M in reserve funds. Under the proposed bill, the following apply: average number of members hospitalized on any given day - 116, average length of hospital stay - six days, average cost per day - \$3,000, approximate cost for members in hospital on day of receivership until discharge - \$2.1 M. In addition, it is assumed that one month's benefits are included in the reserve calculation as well, resulting in a total required reserve of \$36.2 M.

Under current regulations, an HMO is only required to continue benefits for the longer of the duration of the contract for which premiums have been paid (typically 30 days, state contract 14 days) or 60 days. During the recent Maxicare receivership, some insured parties interpreted this statute to read that benefits were to be provided for 60 days regardless of whether premiums were paid. As a result the remaining HMOs will incur increased operating expenses due to assessments to pay for these Maxicare benefits in addition to uncovered Maxicare liabilities. Current estimated costs of the Maxicare assessment are between \$1.8 M and \$2.0 M.

Explanation of State Revenues:

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: Potentially all that purchase health benefits from HMOs.

Local Agencies Affected: Potentially all that purchase health benefits from HMOs.

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